

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Executive Office of the Mayor



Improving Critical Services Maintaining Budget Balance

The Mayor's Proposed FY03 and FY04 Budgets

March 17, 2003



Today's Discussion

THE CHALLENGE

National economic downturn, local budget pressures,
historical divestment

THE GOAL

Improve resident services, preserve fiscal health

BUDGET BALANCING PLAN



THE CHALLENGE



THE CHALLENGE

National Economic Downturn

States and local governments facing the toughest financial challenges since World War II

- Economic recession
- Increasing federal entitlements without funding
- Threat of war



THE CHALLENGE

Local Budget Pressures – FY03

	<u>Amount</u> (in millions)	<u>%</u>
Economy		
Revenue decline	53	
Increase service needs	<u>27</u>	
Subtotal	80	60%
New court-orders (for incarcerated youth and the mentally disabled)	13	10%
Change in federal policy on grants (Cancellation of TANF and other funds)	13	10%
Snow removal emergency	3	2%
Public safety overtime and related issues	17	13%
CFSA reimbursement challenges	6	4%
Other	<u>2</u>	<u>1%</u>
Total	134	100%



THE CHALLENGE

Local Budget Pressures – FY04

Local Funds (\$ millions)

	Budget	<u>Budget</u>
1 FY 2003 Original Proposed Budget (June 2002)		\$3,751
2		
3 FY 2003 Net Expenditure Reductions	(\$149)	
4 (includes expenditure decreases of \$192)		
5 Revised FY 2003 Proposed Budget (october 2002)		\$3,602
6 Note: Does not include \$11 million placed in reserve for potential		
7 costs associated with President's No Child Left Behind initiative		
8		
9 Court Order Mandates	\$23	
10 Previously Approved Pay Raises/Pension Funding Incre	\$114	
11 FY 2004 Inflationary Growth/Formula Increases	\$32	
12 FY 2003 Spending Pressures	\$70	
13 FY 2004 Fixed Cost Increases	\$11	
14 Regional Funding Agreements	\$11	
15 Other Baseline Adjustments	(\$19)	
16 Total Baseline Adjustments	\$241	
17		
18 FY 2004 Baseline Budget		\$3,843
19 FY 2004 Projected Revenue		\$3,699
20 Operating Margin, Budget Basis		(\$144)



THE CHALLENGE

Historical Cuts to Budgets

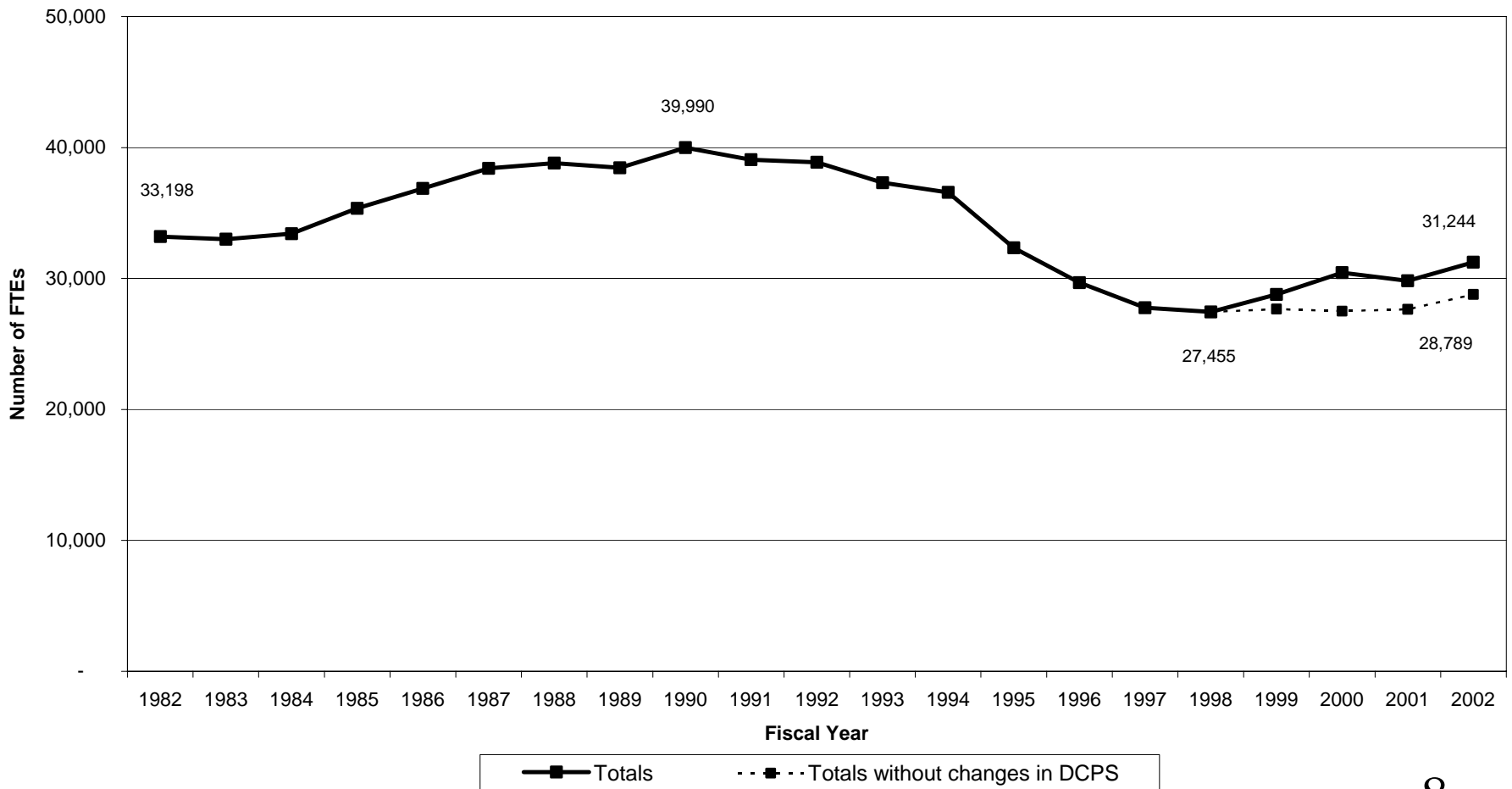
- FY01 \$52 million
- FY02 \$14 million
- FY03 \$193 million in operating funds*
 \$250 million in capital funds
- Despite these reductions, District spending has increased in some areas due to:
 - Growth in special education, charter schools, health
 - Increasing federal entitlement programs
 - Addressing deferred investment in basic facilities, equipment, and training

* As part of \$323 million gap-closing



THE CHALLENGE

Historical Cuts to Staff





THE CHALLENGE

Limits on Capital Borrowing

- The District typically finances (borrows) \$300 million for capital projects each year
- Wall Street sets guidelines to discourage jurisdictions from borrowing too heavily
- DC is approaching those limits and must scale back capital financing
- Over the next 6 years, DC must reduce borrowing to \$250 million per year
 - \$250 million in approved projects cancelled or reduced in FY03
 - \$110 million in approved projects must be cancelled in FY04



THE CHALLENGE

How can we focus our goals to
continue service improvement
and still
balance our budget?



THE GOAL



THE GOAL

How Priorities are Set

Thousands of discussions with residents

- Citizen Summits
- Town hall meetings
- Letters, e-mails, phone calls
- Advisory group input
- Focused meetings with ANC leaders
- Face to face conversations with residents

THE GOAL



Citywide Strategic Plan Priorities

- Children, youth, families, and elders
- Building sustainable neighborhoods
- Economic development
- Making government work
- Unity of purpose



THE GOAL

Focus on Resident Top Priorities

Areas of extra focus for the next four years

- Education
- Public Safety
- Opportunity for All
 - Health Care
 - Housing
 - Jobs
 - Literacy
 - Substance abuse



Education Goals

All Children Learn

- Enhance support for children by fully funding schools
 - DCPS: From \$480 million (FY97) to \$740 million (FY03)
 - Charter schools: From \$0 (FY97) to \$126 million (FY03)
 - *Budget*: No school cuts for FY04, maintaining at least FY03 levels
- Enhance the quality of classroom teaching (FY03)
 - Increase national certification for teachers and child care centers
 - *Budget*: Continue 19% pay increase for teachers over 3 years
- Provide other services children need so they can learn (FY04)
 - Begin providing “wraparound” services in schools (Health, mental health, adult literacy, etc.)
 - *Budget*: Establish partnerships to build community involvement
 - *Budget*: Better coordinate facility use to maximize service quality



Education Goals

All Adults are Job-Ready

- Maintain local funding for services
 - *Budget:* Explore means of replacing lost federal funds (FY04)
 - *Budget:* No cuts in UDC
- Break down “silos” in literacy programs to increase service levels (FY04)
- Establish 20 new “Literacy Leaders” (FY04)
- Establish partnerships to increase the number of teachers and trainers available (FY04)



Public Safety Goals

Improve 911 Service

- Restructure and build up staff (FY03)
 - *Budget:* Fill existing vacancies and hire 20 civilian police call takers at the 911 center
 - *Budget:* Fill existing vacancies and hire 8 new fire call takers, including 4 new bilingual operators
 - *Budget:* Add mapping system management and greater supervision
- Implement a “Universal Call Taker” Pilot Project so emergency calls are not transferred between police and fire operators (FY03)
- Create a public quality assurance system for 911 users to file a complaint and receive follow up (FY03)
- Provide 911 callers timeframes for responder arrival in non-urgent situations (FY03)



Public Safety Goals

Reduce Crime

- Propose a new PSA system to better deploy officers in crime areas and increase community connection (FY03)
- Deploy one “Operation Fightback” each week in a new Persistent Problem Area (FY03)
- Enhance the abandoned auto process (FY03)
- Improve homicide investigation capacity through “Lateral Senior Detectives Act 2003” and “Senior Detectives Act 2003” (FY03)
- Increase number of police officers deployed
 - To 3,660 in FY03
 - To 3,800 by the end of FY04



Public Safety Goals

Emergency Preparedness

- Complete acquisition of emergency preparedness equipment
 - Includes biohazard suits, haz.mat. cleanup equip., reserve fire engines, mass casualty teams, mobile hospital etc.
 - *Budget:* Complete expenditure of \$156 million in federal funding by end of FY03
 - *Budget:* Earmarking local funds for maintenance of equipment and ongoing training
- Complete community based emergency plans for each of 39 neighborhood clusters



Opportunity for All Goals

Expand Affordable Housing

- Build 20,000 new units in the next four years
 - *Budget:* Consolidate outdated programs to use resources more efficiently (FY03)
 - *Budget:* Maximize use of federal grants and land transfers (FY03)
 - *Budget:* Double FY03 housing production trust funds for FY04
 - *Budget:* Preserve homeless services and most of tenant relocation fund (FY03)
- Complete Comprehensive Housing Plan (FY04)
 - Eastgate Hope VI
 - Reservation 13
 - Southeast Federal Center
 - Existing convention center site
 - Camp Simms
 - Petworth metro site
 - DC Village



Opportunity for All Goals

Create Job Opportunities

- Target job training opportunities in growth sectors (FY04)
(Including health care, hospitality, and retail)
- Create partnerships to enhance training for District residents (FY04)
 - Enroll 396 residents in union and non-union apprenticeship programs
 - Enroll 70 new trainees in literacy training through Sylvan Learning Center
 - Include resident training and hiring in new DC supported development
- Enhance job opportunity for youth
 - Major feedback at Youth Summit was that youth want job opportunities
 - *Budget:* Restore lost funding for summer jobs program (FY03, not FY04)
 - *Budget:* Explore means of replacing lost funding in FY04
- Expand opportunities for residents in DC government (FY03)



Opportunity for All Goals

Protect Health Care Services

- Maintain gains in access to hospital care (FY03)
 - *Budget:* Fully fund Alliance
 - *Budget:* Increase Medicaid funding to meet new service levels
 - *Budget:* Increase compensation for specialty providers
- Enhance substance abuse treatment (FY04)
 - Implement City-wide unified substance abuse strategy targeting 24 year olds and under;
 - Blend resources as necessary across government agencies to maximize efficiencies and increase outcomes;
 - Bring on line services for court involved families



THE GOAL

How can we make resources available
to meet our goals?



BUDGET BALANCING PLAN



BUDGET BALANCING

Resource Options

- DC Government
 - Expenditure reductions
 - Revenue increases
 - Capital project reductions
- Community partners
 - Individual volunteers
 - Organizational partnerships
 - Voluntary payments in lieu of taxes
- Federal partners
 - Federal Fair Compensation Act
 - Regional investment



BUDGET BALANCING

Mayor's Proposal

Dollars in millions	<u>FY03</u>	<u>FY04</u>
Shortfall	(134)	(144)
Reserve/fund balance use	39	-
Technical adjustments	-	(22)
Baseline correction		(6)
Expenditure reductions	95	101
Automatic tax parity delay	-	24
Revenue increases	<u>-</u>	<u>49</u>
Total Solutions	134	146

Note: Does not reflect \$11 million placed in reserve for potential costs
Associated with President's No Child Left Behind initiative



BUDGET BALANCING

Expenditure Reductions

We will discuss:

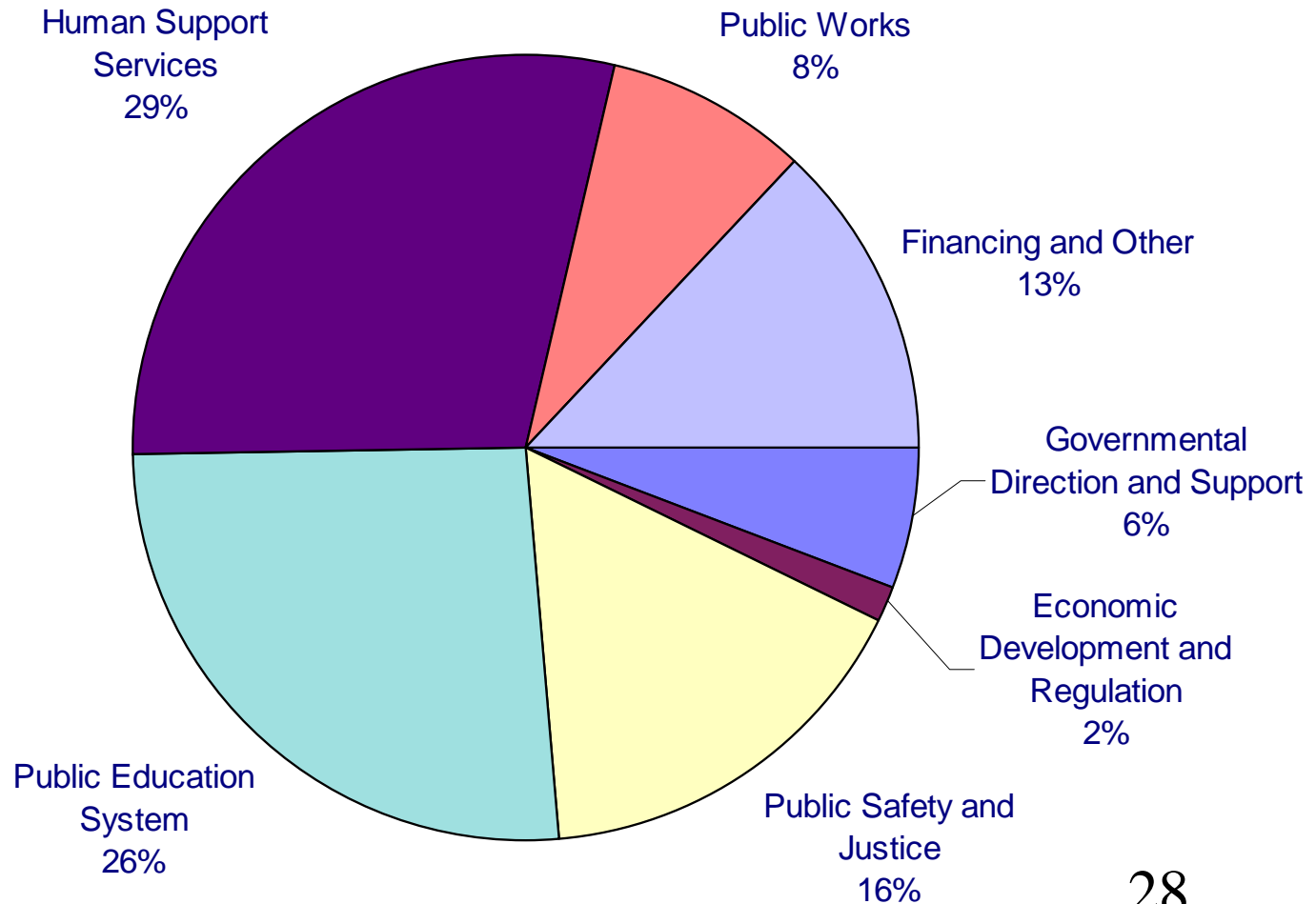
- “Where the money goes”
- Reductions made last October
- Mayor’s approach to reductions this year
- Proposed reductions
- Delays in capital projects
- What services are protected
- Operational reviews and efficiencies



BUDGET BALANCING - Expenditures

Where the Money Goes

Percent of FY03 Budget
Local Funds



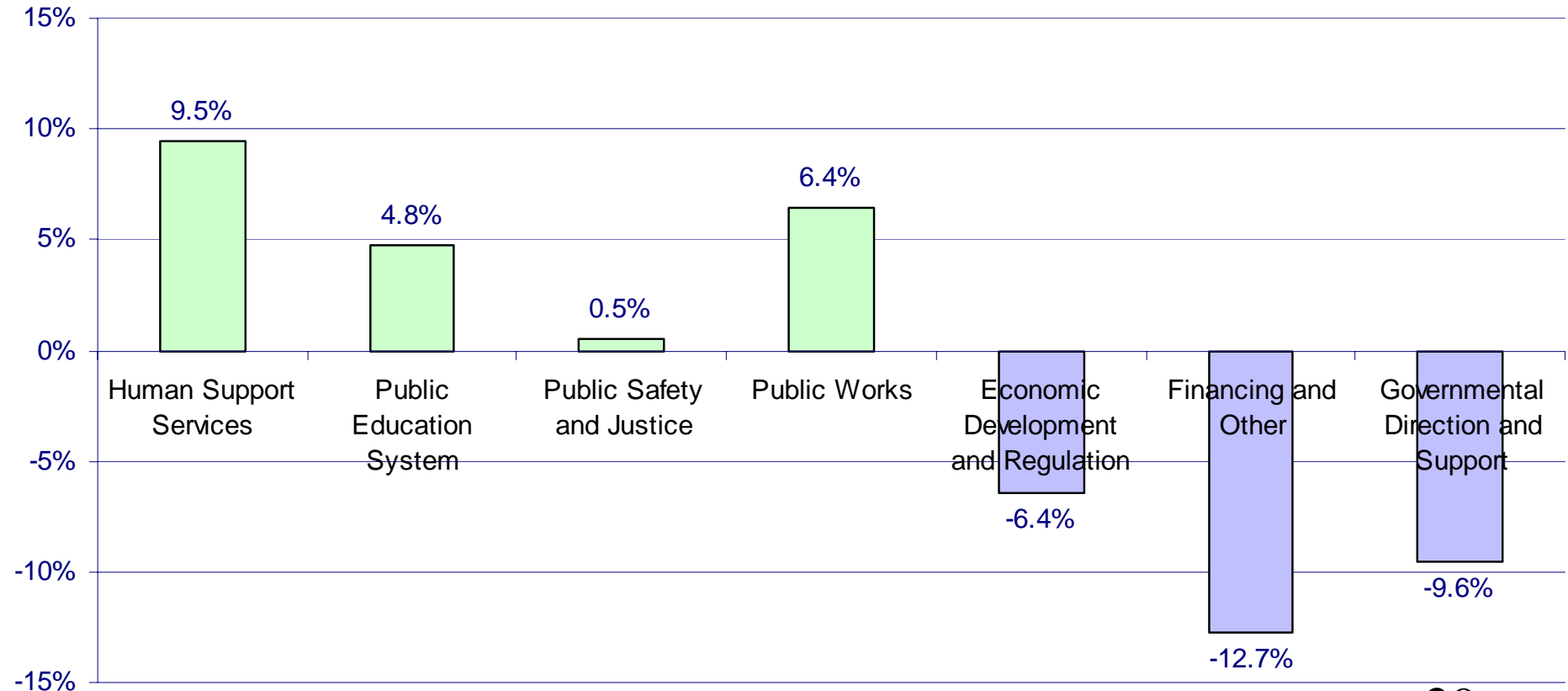


BUDGET BALANCING - Expenditures

Reductions Already Made

Local Fund
Change

Rate of Growth from FY02 to FY03 Budgets



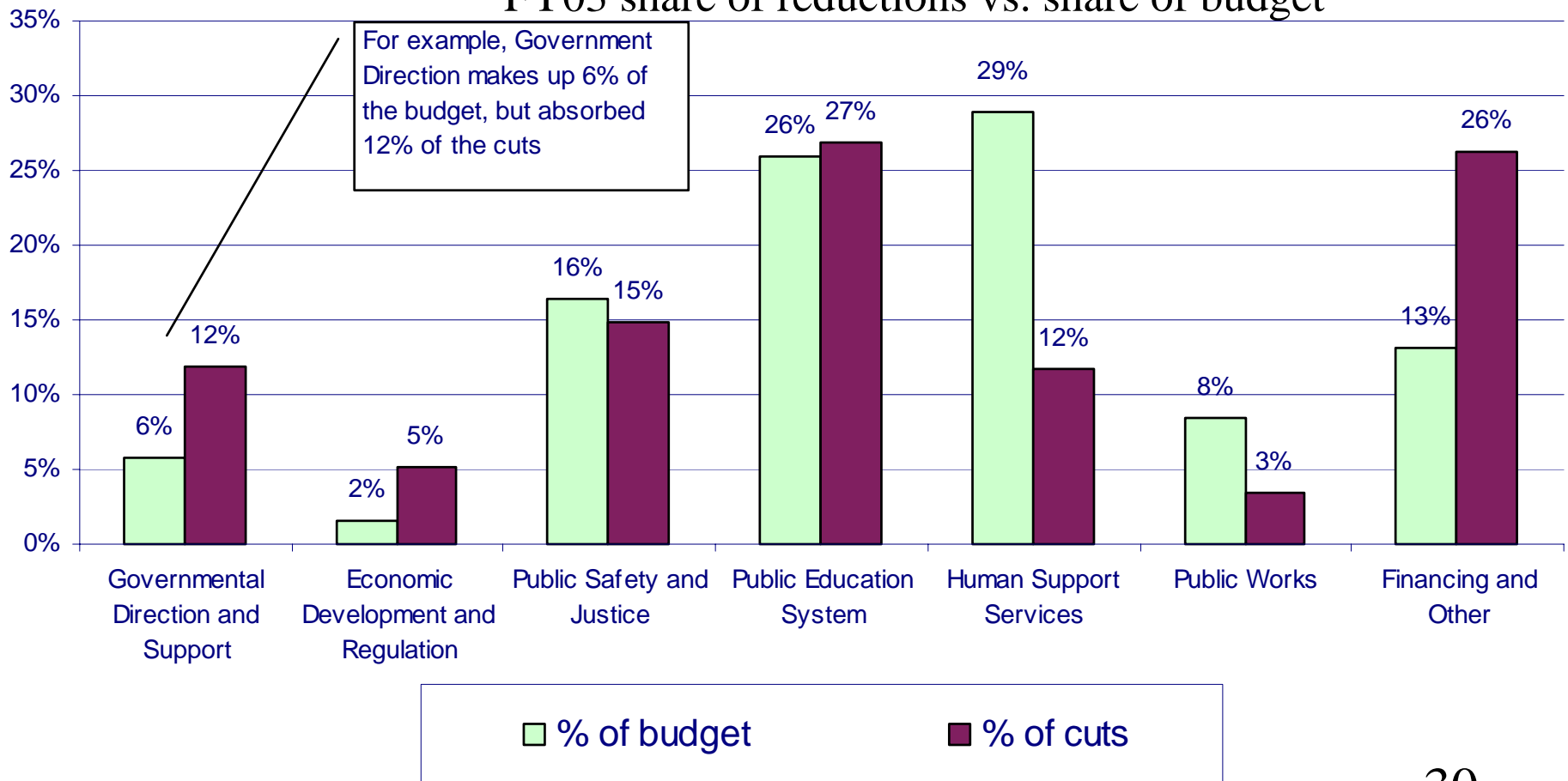


BUDGET BALANCING - Expenditures

Reductions vs. Budget Size

Local
Funds

FY03 share of reductions vs. share of budget





BUDGET BALANCING - Expenditures

Mayor's Approach to Reductions

Pursue spending reductions in the following order:

1. Identify remaining areas of productivity savings/efficiencies
2. Reallocate unspent fund balances
3. Freeze administrative spending
4. Suspend new increases in service levels
5. Reduce non-core (not basic safety/health) programs

BUDGET BALANCING - Expenditures



Proposed Reductions

(Dollars in millions)	<u>FY03</u>	<u>FY04</u>
– Productivity savings / efficiencies		
DCPS reserve avoidance, Public safety / DOH efficiencies	18	24
– Reallocate unspent balances	34	18
Most are one-time solutions		
– Freeze administrative spending	33	41
No new hiring, pay increases, equipment for non-emergency svcs.		
– Suspend new increases in service levels		
Interim Disability Assistance	2	3
Cap HPTF increase at 200% of FY03 level	-	8
Medicaid specialty provider increase	3	-
– Reduce non-core (not basic safety/health) services		
Alley cleaning, street paving, DMV improvements	. 4	. 3
Other	. 1	. 4
	<u>95</u>	<u>101</u>



BUDGET BALANCING

Proposed FY04 Budget Mark

Dollars in millions	<u>FY04</u>	<u>Change</u>	
Gross funds	5.6 billion	(.02%)	decrease
Gross FTEs	33,638	4	increase
Local funds	3.8 billion	5.5%	increase
Local FTEs	26,197	(197)	decrease

Local growth consists of court orders, federal mandates, union pay increases, education formula growth, Medicaid and social service growth, fixed cost increases, WMATA, and FY03 spending pressures, and technical adjustments to the baseline



BUDGET BALANCING – Capital

FY04-09 Capital Options

Dollars in millions	<u>Reduce</u>	<u>New FY04</u>	<u>New Six Year</u>
Office Building Repairs	(16)	-	-
Arts	(2)	-	-
Senior Centers	(13)	-	-
Libraries	(12)	-	-
Parks and Recreation	(29)	-	-
Medical Examiner	(6)	1	2
Corrections	(12)	3	7
Police	(7)	10	36
Fire	-	8	47
Health/Human Services	(1)	30	58
Mental Health	-	25	31
Public Works/DMV	-	13	22
Data Systems	(1)	35	57
Other	<u>(11)</u>	<u>4</u>	<u>8</u>
Total	(110)	140	641



BUDGET BALANCING - Expenditures

What Services are Protected

Basic safety and health

- Police, fire, emergency management, and corrections
 - Including increased funding for:
 - Greater police presence in neighborhoods
 - Faster 911 response
 - Fire house equipment and station improvements
- Health, human services, mental health, foster care, elders
 - Including service improvements for :
 - Mentally retarded
 - Incarcerated youth
 - Homeless
 - Foster children
 - Improvements in facilities



BUDGET BALANCING - Expenditures

What Services are Protected

Other Essential Services

- Schools, UDC, and library operations
- Job training and housing production
(at current funding levels)
- Street cleaning, trash collection, recycling
- Road repair, tree maintenance
- Most recreation programs



BUDGET BALANCING – Efficiencies

Operational Reviews

- Contracts
- Technology
- Facility consolidation
- Vehicle fleet
- Agency structure reviews, starting with:
 - Mental Health
 - Police
 - Health
- Senior-level manager review (see next slide)



BUDGET BALANCING – Efficiencies

Review of Sr. Management

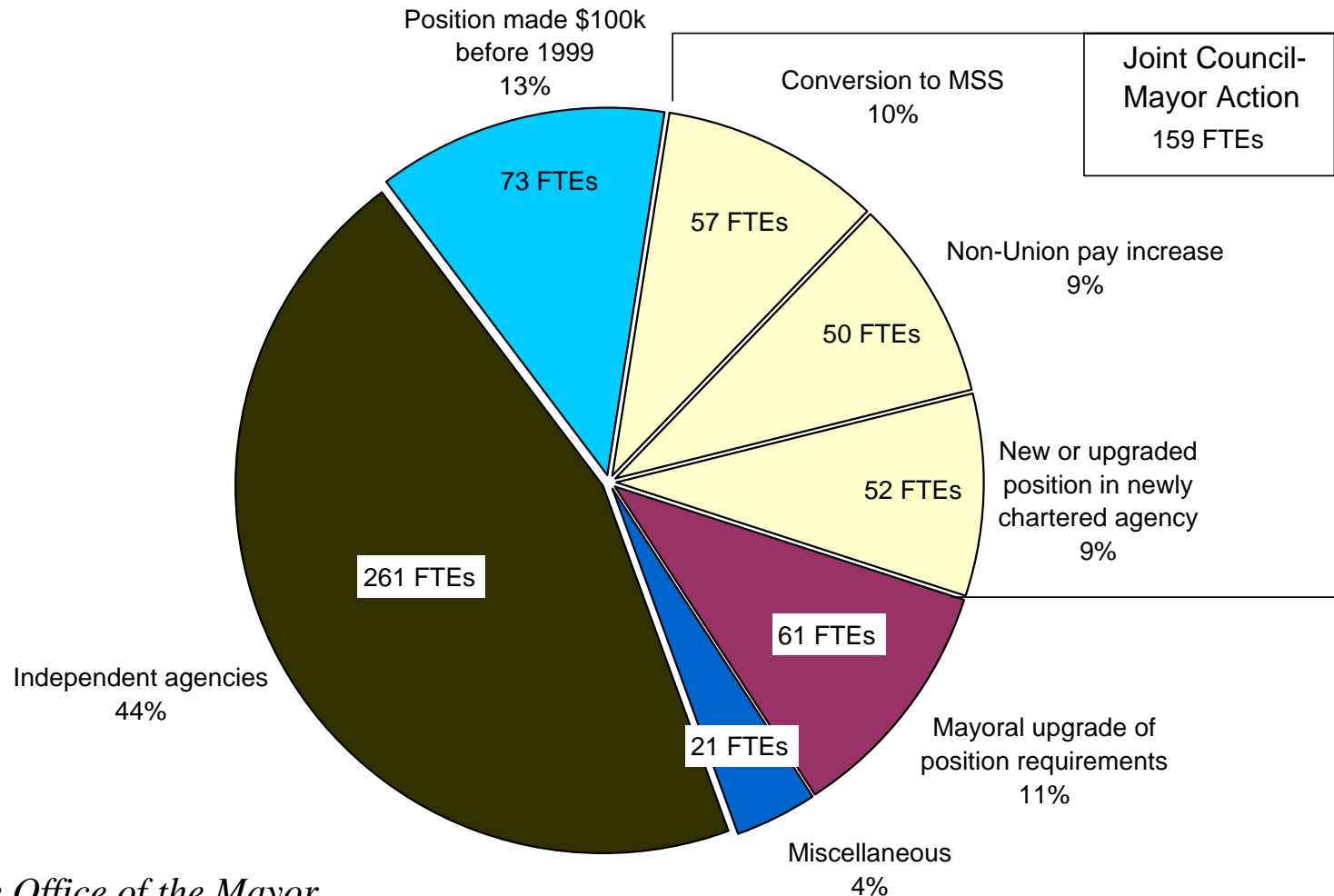
Total growth since 1999

	Jan. FY99	Oct. FY03	Increase / (Decrease)	Percent Change
Total	301	575	274	91%



BUDGET BALANCING – Efficiencies

Review of Sr. Management





BUDGET BALANCING - Revenues

Revenue Increases

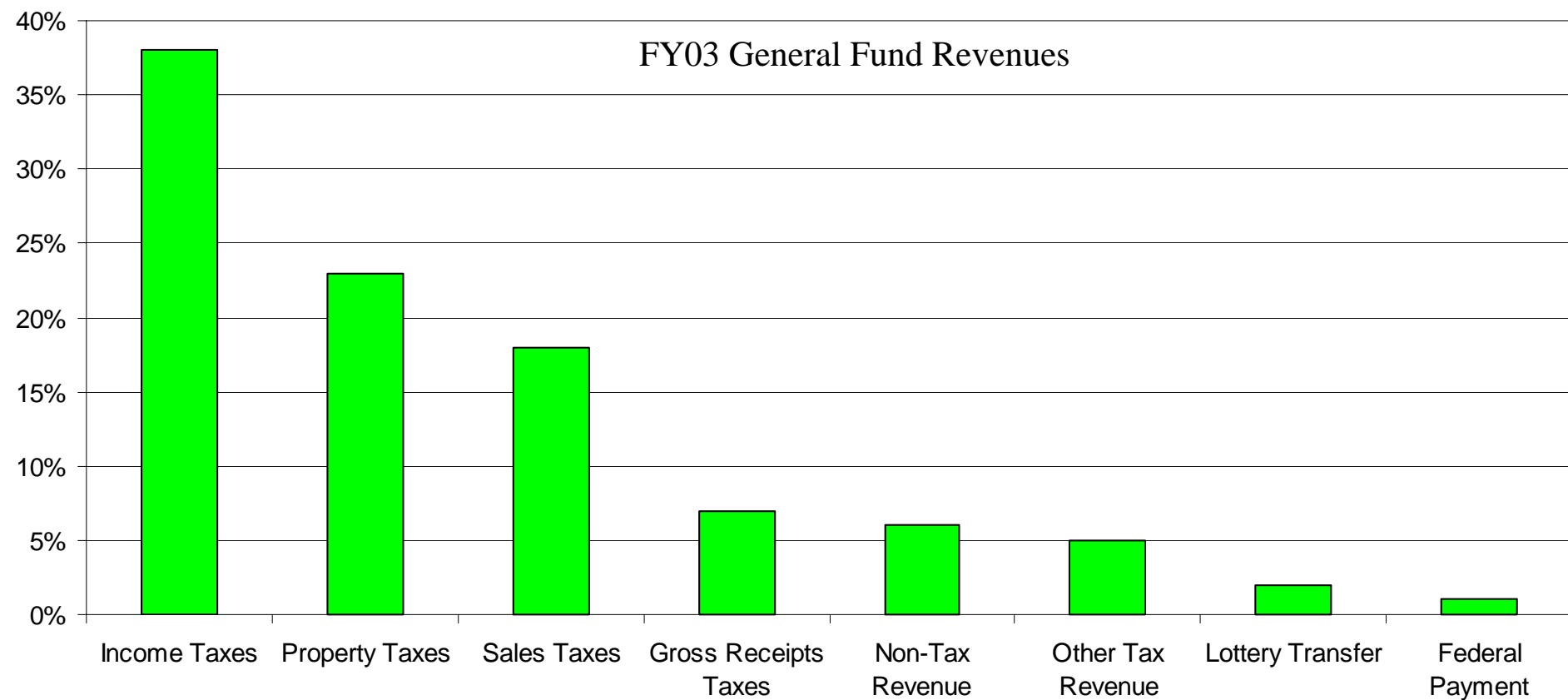
We will discuss:

- “Where the money comes from”
- Increases made last October
- FY04 revenue proposal



BUDGET BALANCING – Revenues

Where the Money Comes From





BUDGET BALANCING – Revenues

Increases Made Last Year

Estimated TAX REVENUE Initiatives Already Passed for FY 2003 In \$ Millions		Revenue Change FY04	Revenue Change FY05	Revenue Change FY06	Revenue Change FY07
SALES					
	Increase <u>8% rate</u> - Retail alcoholic beverages to 9%	1.9	1.9	2.0	2.1
	Increase <u>Cigarette tax</u> rate from \$0.65 to \$1.00 / pack	7.5	7.2	7.0	6.8
PROPERTY					
	Tax Vacant and abandoned Property at 5% of Market Value	12.0	11.0	11.0	10.0
DEED					
	Increase Deed Tax rate (Recordation, Transfer, Econ Interests) increase recordation rate from 1.1% to 1.5% increase transfer rate from 1.1% to 1.5% increase economic interest rate from 2.2% to 3.0%	31.2	31.8	32.5	33.6
INCOME					
	Defer Tax Parity Individual Income Tax	117.7	66.7	5.1	4.8
	Franchise Tax Defer Tax Parity, hold tax rate at 9.975%	29.7	30.3	30.9	31.6
GROSS RECEIPTS					
	Increase <u>Public Utilities</u> tax rate (from 10% to 11%)	14.0	14.3	14.6	15.0
	Increase <u>Toll Telecommunications</u> tax rate (from 10% to 11%)	6.9	7.5	8.2	8.9
TOTAL TAX POLICY CHANGES		220.9	170.7	111.3	112.8



BUDGET BALANCING – Revenues

FY04 Revenue Proposal

Dollars in millions	<u>FY04</u>
Enhance parity of sales tax	4
Ends tax exemption for health clubs, car towing, security, investment counseling, and other services	
Increase parking tax by 6%	22
Tax has not been increased in 27 years	
Will rise from 12% to 18%	
Will add 60 cents to a \$10 parking charge	
2-year surcharge on income over \$100k	22
0.6% additional surcharge beyond top rate of 9.3%	
Filers earning \$150,000 with net taxable income of \$125,000 will pay an additional \$150.	
1,500 new parking meters	<u>1</u>
Total revenue increases	49



Decision Timeline

- March
 - Mayor proposes FY04 budget
 - Mayor proposes FY03 budget realignment

- March-April
 - Council budget hearings
 - Council vote on legal changes required to balance the FY03 budget

- April
 - Council vote on FY04 budget

- May
 - Mayor signs budget into law or vetoes